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No. 96-1899

In The

Supreme Court of the United States

October Term, 1996

INSULTHERM, INC., THERMACON, INC., AND MARK MCBRIDE,

Petitioners,

v.

TANK INSULATION INTERNATIONAL, INC.,

Respondent.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Fifth Circuit

BRIEF IN OPPOSITION

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BRIEF IN OPPOSITION

Tank Insulation International, Inc. respectfully prays that this Court deny the Petition for a Writ of Certiorari to the United States Court of Appeals for the Fifth Circuit filed by Petitioners in this case.

STATEMENT OF THE CASE

Respondent disagrees with Petitioner's Statement of the Case in two fundamental ways. First, Petitioner greatly exaggerates any "split" that exists between the Courts of Appeals regarding the application of *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944), as well as the criticism that has been lodged at this Court's long-standing opinion. Second, Respondent disagrees that this case presents this Court with any question at all concerning the Federal Circuit's exclusive jurisdiction over patent appeals.

The Fifth Circuit's opinion does not "deepen the split" between the six Circuit Courts that have interpreted *Mercoid*, but instead strengthens the prevalent, indeed only, view among such Courts, that *Mercoid*, creates a limited exception to the compulsory counterclaim rule for antitrust cases based on wrongful patent litigation. Indeed, no Circuit Court has ever interpreted *Mercoid*, to apply to any other type of case. The Fifth Circuit's opinion, therefore, does not invite this Court's review, as Petitioners suggest, but instead underscores the fact that *Mercoid*, has been working well for over fifty years and does not need "fixing."

Furthermore, no question at all is presented for review regarding the Federal Circuit's exclusive jurisdiction over patent cases. The case that was appealed to the Federal Circuit was an entirely separate patent case that presented an entirely different procedural question, i.e., whether the trial court abused its discretion in failing to grant Respondent leave to file an antitrust counterclaim as a matter of timeliness. The Federal Circuit was not, and could not have been, presented with the question of whether Respondent's antitrust case was a compulsory counterclaim, because it did not have jurisdiction over this separate antitrust case, which was based on the Sherman Act, 15 U.S.C. § 15(a), not on patent law, 28 U.S.C. § 1338.

Respondent disagrees with the remainder of Petitioner's Statement of the Case, as follows:

A. Factual Background and Proceedings in the District Court.

Tank Insulation's antitrust allegations in this case are *not* based solely on the cross-license agreement between Insultherm and Thermacon, as they allege. Tank Insulation additionally alleges, among other things, that Petitioners acted in concert in filing and in litigating Insultherm's patent infringement suit: (1) knowing Insultherm's patent was unenforceable and invalid; (2) without determining whether Tank Insulation had actually infringed on the patent, and/or (3) without regard to the outcome of the suit.

Furthermore, Tank Insulation attempted to file a counterclaim in the underlying patent case in an abundance of caution, *not* in recognition that it is a compulsory counterclaim, as alleged by Petitioners.

B. Proceedings in the Federal Circuit and the Fifth Circuit.

The trial court below entered a final judgment in both the patent case, denying Insultherm leave to file its untimely counterclaim, and in the antitrust case, dismissing it as a compulsory counterclaim in the patent case. The Federal Circuit's opinion did not affirm the trial court's dismissal of this antitrust action, as this case was not before it.

ARGUMENT AND AUTHORITY

I.

NO SPLIT OF AUTHORITY EXISTS AMONG THE SIX COURTS OF APPEALS THAT HAVE INTERPRETED *MERCOID*

A. *Mercoid* in the Courts of Appeals.

What Petitioners describe as a "split" among six of the Courts of Appeals is, on closer inspection, only the difference between cases in which *Mercoid*, has been applied in antitrust cases based on prior patent litigation, and those which the courts have factually distinguished from *Mercoid*. The Seventh, Eighth, Ninth, and now Fifth, Circuits have expressly followed *Mercoid's* holding and allowed separate antitrust cases based on prior wrongful

patent litigation to proceed. *See Tank Insulation Int'l, Inc. v. Insultherm, Inc.*, 64 F.3d 671, 675 (5th Cir. 1997); *Switzer Bros. v. Locklin*, 207 F.2d 483, 488 (7th Cir. 1953), *cert. denied*, 347 U.S. 912 (1954); *Agrashell, Inc. v. Hammons Prods. Co.*, 479 F.2d 269, 287 (8th Cir.), *cert. denied*, 414 U.S. 1022 (1973); *Hydranautics v. FilmTec Corp.*, 70 F.3d 533, 536 (9th Cir. 1995).

The Fourth and Second Circuits have distinguished *Mercoid*, and hold that its exception to the compulsory counterclaim rule is limited to its facts. *See Burlington Indus., Inc. v. Milliken & Co.*, 690 F.2d 380, 389 (4th Cir. 1982), *cert. denied*, 461 U.S. 914 (1983) (antitrust case based on price-fixing arising from cross-licensing agreement, not patent misuse); *United States v. Eastport Steamship Corp.*, 255 F.2d 795, 805 (2d Cir. 1958) (admiralty case). No Court of Appeals has even suggested that *Mercoid* should be applied to anything but antitrust cases based on wrongful patent litigation.

Perhaps most telling of *Mercoid's* viability is the fact that on only six occasions in over fifty years of federal litigation have the Courts of Appeals been called upon to address this issue. On three of those occasions, this Court has denied *certiorari*. *See Agrashell, Inc. v. Hammons Prods. Co.*, 479 F.2d 269, 287 (8th Cir.), *cert. denied*, 414 U.S. 1022 (1973); *Switzer Bros. v. Locklin*, 207 F.2d 483, 488 (7th Cir. 1953), *cert. denied*, 347 U.S. 912 (1954); *Burlington Indus., Inc. v. Milliken & Co.*, 690 F.2d 380, 389 (4th Cir. 1982), *cert. denied*, 461 U.S. 914 (1983).

Petitioner's attempt to distinguish this case from *Mercoid* on the basis that it is not one for "misuse," is misplaced, and misrepresents the totality of Respondent's

complaint. Tank Insulation's claims against Petitioners are for antitrust violations under the Sherman Act, commonly known as "sham" or "predatory" patent litigation. *See* 15 U.S.C. §§ 1, 2. "Misuse" of a patent includes enforcing a patent known to have been obtained by fraud, or cross-licensing an ineffective patent to deprive a competitor of business, both of which are alleged in this case. *See Walker Process Equipment, Inc. v. Food Machinery and Chemical Corp.*, 382 U.S. 172 (1965). So, even if *Mercoid* were limited to patent misuse cases, it would nevertheless be applicable to this case.

More importantly, however, the *type* of antitrust claim, so long as it is based on wrongful patent litigation, is not important to either *Mercoid's* holding, or to the policy reasons supporting it, as discussed below.

B. *Mercoid* in the District Courts.

Although some district courts have been less than shy in expressing their dislike of *Mercoid*, the fact remains that a conflict compelling this Court's review can exist only to the extent that such decisions have been reviewed on appeal. *See* Sup. Ct. R. 10(a). As shown above, review of such decisions has not resulted in any meaningful conflict among the Courts of Appeals.

Respondent mischaracterizes the entirety of Professor Wright's comments concerning *Mercoid* by omitting his stated opinion that "[t]hus restricted [to patent cases and to counterclaims for misuse of the patent in violation of an antimonopoly statute], or even extended to counterclaims involving an important 'public interest,' *Mercoid* should produce little or no confusion in the practice

under Rule 13." *See* CHARLES ALAN WRIGHT, ARTHUR R. MILLER, MARY KAY KANE, FEDERAL PRACTICE AND PROCEDURE, § 1412 at 94 (2d ed. 1990).

C. Sound Policy Reasons Support *Mercoid.*

What is absurd, is not *Mercoid's* result, as alleged by Petitioners, but rather their argument that Tank Insulation was somehow able to "secretly" obtain "admissions" from them in the patent case. Respondents had an equal, if not greater, interest in defending against Tank Insulation's allegations of fraud on the patent office in the patent case, as it would have in defending against an antitrust action. Surely Petitioners are not suggesting that their principals should have license to lie with impunity.

The policy reasons behind *Mercoid's* decision are expounded on at length in the Ninth Circuit's *FilmTec* decision. *See Hydranautics v. FilmTec,* 70 F.3d 533 (9th Cir. 1995). There, the Ninth Circuit points out that, when antitrust claims are brought as counterclaims to the patent infringement case on which they are based, the trial courts usually try the patent case first, anyway, since its outcome will determine, and, if unsuccessful, actually form the basis for, the antitrust claim. *See id.* at 536. The Court likens antitrust "sham" litigation cases to malicious prosecution cases, since in both cases the first suit is the very basis for the wrongful conduct asserted in the second suit. *See id.* The statute of limitations for malicious prosecution, for instance, does not begin running until the underlying criminal case is disposed of. The *FilmTec* court also points to the fact that Congress has provided

different appellate paths for patent and antitrust claims, as evidence of the distinctiveness between the facts giving rise to each. *Id.*

Whether analyzed as an exception to Rule 13(a) or as unique cases that do not fall within the rule, the policy reasons for the compulsory counterclaim rule are well-served in following *Mercoid* in antitrust cases based on patent infringement suits. The two cases involve different facts, different evidence, and in this case, even different parties, as Thermacon was not a party in the patent case. A judgment in the patent case would not be *res judicata* if it was unsuccessful, but would provide the very basis for the antitrust claim. The two claims are not logically related when viewed in the sense of the rule's purpose of avoiding multiplicity of suits, since the patent case will either form the basis for the antitrust case, or will render it moot. Therefore, there is no substantial duplication of effort in trying the antitrust case as second, subsequent lawsuit.

II.

THE FIFTH CIRCUIT PROPERLY ASSERTED JURISDICTION OVER THIS CASE

The district court's jurisdiction over this case is based on the Sherman Antitrust Act and federal question jurisdiction. *See* 15 U.S.C. § 15(a); 28 U.S.C. §§ 1331, 1337. It is not based on patent law, as argued by Petitioners. The fact that at one time this case was temporarily consolidated with Insultherm's patent case does not serve to alter its jurisdictional basis. Before the consolidation order, during the time the consolidation order was in

effect, and after that order was vacated, this case had an independent, non-patent jurisdictional ground. In short, this case did not "arise under" a federal patent statute, as Petitioners contend, but under the antitrust laws.

Moreover, the issues raised in this appeal are significantly different from, although related to, those in the patent appeal that was before the Federal Circuit. Here, the question is whether Tank Insulation's antitrust case is barred as a compulsory counterclaim that should have been brought in the prior patent case. *See* FED. R. CIV. P. 13(a). The issue in the patent case was whether the trial court abused its discretion under Rule 13(f) in not allowing Respondent to amend is answer to include an antitrust counterclaim in that case as a matter of timeliness, not whether the counterclaim was compulsory or permissive.

The Fifth Circuit's holding in this regard does not conflict with any prior decision of any court. The case relied on by Petitioners are cases that were originally based on patent jurisdiction in which the patent issues were dismissed before the appeal. They do not stand for the proposition that the Federal Circuit has exclusive jurisdiction over a separate antitrust case simply because, for a matter of a couple of months, it was temporarily consolidated with a patent case. In short, this antitrust case is not a patent case, never has been, and never will be. It is Petitioners who have no authority for their position, not the Fifth Circuit. *See Hydranoutics v. FilmTec*, 70 F.3d 533, 537 n. 1 (9th Cir. 1995) (appeal from dismissal of antitrust case in which, by the same order, trial court denied leave to file counterclaim, which was appealed to Federal Circuit).

CONCLUSION

In conclusion, *Mercoid* creates an exception to Rule 13(a) for antitrust actions in which the gravamen is the underlying patent infringement case. Furthermore, the Fifth Circuit properly exercised jurisdiction over this case because the district court vacated its consolidation order and, as a result, Insultherm's infringement action and Tank Insulation's antitrust action reverted to their original status as independent cases.

Respectfully submitted,

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